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RUEHUJA/AMEMBASSY ABUJA 2056
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RUEHDK/AMEMBASSY DAKAR 2012
RUEHKM/AMEMBASSY KAMPALA 2433
RUEHNR/AMEMBASSY NAIROBI 4865
RUEAIIA/CIA WASHDC
RUEHGV/USMISSION GENEVA 1528
RHEHAAA/NSC WASHDC
RHMFISS/JOINT STAFF WASHDC
RUEHC/DEPT OF LABOR WASHDC
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RUCPDOG/DEPT OF COMMERCE WASHDC
RUZEJAA/JAC MOLESWORTH RAF MOLESWORTH UK
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UNCLAS SECTION 01 OF 04 HARARE 000777

SENSITIVE
SIPDIS

AF/S FOR G. GARLAND
AF/EPS FOR ANN BREITER
NSC FOR SENIOR AFRICA DIRECTOR B. PITTMAN
STATE PASS TO USAID FOR L.DOBBS AND E.LOKEN
TREASURY FOR J. RALYEA AND T.RAND
COMMERCE FOR BECKY ERKUL
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS
AFR/AA FOR KATE ALMQUIST AND FRANKLIN MOORE
AFR/SA FOR ELOKEN, JHARMON AND LDOBBINS
AFR/SD FOR DATWOOD AND HSUKIN
EGAT FOR DDODD, KBAUM, WCHANNELL, PSTEFFEN AND AMOUSHEY

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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [ZI](#)
SUBJECT: WORLD BANK MISSION EMPHASIZES COMMITMENT TO POLICY

REFORM

SUMMARY

11. (SBU) During the week of August 18 three World Bank officials visited Harare to brief donors on developments related to the Multi-Donor Trust Fund (MDTF), hear donors concerns about its implementation, discuss conceptualization of a programmatic MDTF, and take the pulse of the economy. Maputo-based country director Michael Baxter told the Ambassador that the World Bank had been prepared to re-engage with Zimbabwe but he felt that the chances of the Bank moving forward had begun to recede in light of the political stalemate. World Bank senior economist John Panzer met with a broad spectrum of business leaders and was the key note speaker on the subject of Zimbabwe's road to economic recovery at a major forum organized by the American Business Association of Zimbabwe in Harare. He emphasized that the success of economic stabilization and the speed of recovery would depend on Zimbabwe's commitment to policy reform and the consistency of reform implementation. END SUMMARY.

Country Director on Multi-Donor Trust Fund

12. (SBU) During the week of August 18 three World Bank officials visited Harare: Maputo-based Country Director

Michael Baxter, Laura Bailey of the World Bank's Fragile States Office in Washington, and senior economist John Panzer. Baxter and Panzer briefed donors on developments related to the Multi-Donor Trust Fund (MDTF) and listened to donor concerns about its implementation. The donors strongly impressed upon Baxter that the MDTF was moving much slower than desired and asked for greater participation by Bank staff in the technical working groups. The donors noted a lack of information sharing between Poverty Reduction and Economic Management (PREM) office staff in Washington, the economic working group of the MDTF, and the policy committee.

13. (SBU) Baxter told the MDTF meeting on August 18 that the World Bank planned to augment its staff in Harare to help manage the MDTF and advance planning efforts. It was hiring a local economist and, once significant reforms had begun, would also contract a senior economist with experience in its PREM office to enhance MDTF work on macroeconomic stabilization for 6-9 months in Harare. Panzer later told econoff that the Bank had developed an arrears-clearing plan for Zimbabwe and would consider sending a member of its pre-arrears clearance team to Harare to jump start the process. He was cautious about getting the timing of the visit right so as not to send wrong signals about the World Bank's readiness to assist. He added that the World Bank was well prepared for re-engagement and had done its homework, but awaited approval of major donors before moving forward.

14. (SBU) On August 19 Baxter briefed Ambassador on his visit. He said colleagues Panzer and Bailey were working with the

HARARE 00000777 002 OF 004

World Bank re-engagement strategy team in Washington to strengthen donor support on the humanitarian front and improve technical support. The World Bank had been "geared up" to re-engage with Zimbabwe but he felt that the chances of the Bank moving forward had begun to recede. He said he had come to Zimbabwe with a plan for upgrading the Bank's local operations, but had put the plan "in his pocket" for now; World Bank president Robert Zoellick had advised him not to "jump in" injudiciously. Baxter reiterated that Zimbabwe had to clear its arrears to the World Bank and establish a strong track record (8-9 months) of reform before the Bank would consider lending again.

Fragile States Staffer on Conceptualization of MDTF

15. (SBU) Bailey, also, met with donors and discussed conceptualization of a programmatic MDTF. It could be implemented with donor financing to: deliver basic services; support economic recovery and development work; build capacity and revitalize institutions with a focus on re-building an accountable, effective, and transparent state; finance recurrent costs of a new or transitional government in the form of budget support; and assist with debt management, when conditions permit. She highlighted networking by the Bank team across its regional offices and outside to provide lessons on the key aspects of a programmatic MDTF that are relevant to Zimbabwe. These lessons will be shared with donors to obtain their input and agreement on the structure and operational aspects of a programmatic MDTF. MDTF technical working groups are currently producing draft policy briefs that will constitute a proposed Zimbabwe Emergency Economic Recovery Program (ZEERP) while the Government re-formulates and finalizes a medium-term development strategy. The proposed emergency program would be implemented once Government has produced a credible stabilization strategy and once a reform-minded government has demonstrated sufficient progress on meeting international principles for re-engagement.

Bank Economist Describes Way Forward to Business Forum

¶6. (SBU) The purpose of Panzer's visit from August 17-23 was to learn about the state of the economy and take the pulse of Zimbabwe's business community. Embassy facilitated meetings for him with private sector representatives of the agriculture, mining, tourism, manufacturing, banking and other service industries. Panzer's mission was not official and he did not seek meetings with GOZ officials.

¶7. (U) On August 22, Panzer addressed 250 delegates to the annual economic forum of the American Business Association of Zimbabwe (ABAZ) on "The Road to Economic Recovery in Zimbabwe." He outlined Zimbabwe's current economic situation: declining GDP since 1999, investment below replacement level, agricultural production in disarray, hyperinflation that

HARARE 00000777 003 OF 004

reflected the financing of large public sector deficits by monetization, price distortions, worsening social conditions and, on the political front, the lack of a shared vision about the way forward. To contrast, he pointed out the increased openness of Zimbabwe's neighbors to the rest of the world and the rates of foreign direct investment to those countries. Excluding Angola and Zimbabwe, he noted that exports from Southern Africa had more than doubled between 1997 and 2007 while Zimbabwe's share of the larger trade pie had fallen from 6 percent to 2 percent in the same period.

¶8. (U) Successful stabilization required the restoration of fiscal discipline and the return of the central bank to its core function of maintaining price stability, Panzer cautioned. He advised drastically limiting the role and objectives of the Reserve Bank of Zimbabwe and strengthening the Ministry of Finance. Many countries had rebounded from high inflation and declining income; the harder part was sustaining growth. It demanded deep, consistent economic reform and clear signals from the government about its vision based on the rule of law. Addressing institutional and policy reforms needed in Zimbabwe's context, he said objectives in land reform had to be articulated along with the means to achieve them; parastatals as drivers of hyperinflation needed review in conjunction with defining the role of the public and private sectors; the indigenization law had to be revisited, price controls removed, and multiple exchange rates eliminated. The role of government, and whether it would let the private sector lead, was a fundamental issue to address.

¶9. (U) Panzer stressed to the business community that the world had changed since Zimbabwe enjoyed the status of a self-sufficient economy known in the region for producing high-quality products. Tariff barriers had fallen, competition was greater, and the push to be efficient was intense. South Africa was a major player and the other neighbors had elevated their game and benefited from the SADC free-trade agreement. Zimbabwe's business community would have to learn to compete in a different world than 15 years ago.

¶10. (U) Touching on issues of political economy, Panzer warned that beneficiaries of the highly distorted economic policy environment that generated huge rents and wealth opportunities would want to defend their gains, and Zimbabwe would have to find a way to deal with the groups that stood to lose under economic reform.

¶11. (U) Moving on to re-engagement with the international financial institutions, Panzer argued that Zimbabwe needed to demonstrate its readiness to work with the World Bank. He cautioned government officials against seeking to use international support as a way to postpone reform. He outlined the sequence of steps that the international financial institutions would take, in coordination with other donors, once Zimbabwe signaled its seriousness about reform. He stressed that donor support would not be automatic; the

donors would proceed cautiously, insisting on good economic

HARARE 00000777 004 OF 004

and political programs. He also emphasized the key role for the IMF in endorsing Zimbabwe's stabilization program. Panzer suggested that Zimbabwe would need about US\$ 2 billion in assistance within the first 18-24 months of recovery but he also pointed out the intense global competition for donor money. The international community could help Zimbabwe, but in a supporting, not leading, role. The success of stabilization and the speed of recovery would depend on Zimbabwe's commitment to policy reform and the consistency of its implementation.

Comment

¶12. (SBU) Panzer's presentation at the business forum received wide and positive coverage, surprisingly, even in the government's mouthpiece The Herald. The benefits of pursuing a reform path have never been more clearly articulated in a public forum of this scale and with press coverage as broad and evenhanded as in this case. With the path well defined and the challenges undisguised, it is up to the GOZ to commit to reform or face more years of decline.

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